

Eden ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

November 17, 2015

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Moniqua S. McLean
ABC Board Auditor

Eden ABC Board
Mr. W. Thomas Flynt, Chairperson
318 N Pierce St
Eden, NC 27288

Dear Chairperson Flynt,

We are pleased to submit this performance audit report on the Eden ABC Board. The objective of this audit was to examine existing policies, practices, and controls and to provide recommendations on methods to improve operating efficiency at the ABC Board in accordance with new legislative mandates.

The report consists of an executive summary, background information, operational findings and recommendations along with your response to our recommendations. This report will be posted on the Commission's public web site.

We would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during the audit. Additionally, we appreciate the efforts your Board has made to comply with the new performance standards along with your efforts to increase profitability and reduce expenses.

If we can be of assistance in the future, please advise.

Respectfully,

Robert A. Hamilton
Administrator

CC. North Carolina Association of ABC Boards

EXECUTIVE SUMMARY

By state law, the ABC Commission shall ensure that all local ABC Boards comply with established performance standards by conducting regular audit or performance evaluations. Performance standards shall include, but are not limited to, standards that address enforcement of ABC laws, store appearance, operating efficiency, solvency, and customer service. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvements. This audit was conducted in accordance with Government Auditing Standards. This report details findings and recommendations with regard to organizational and operational issues.

To achieve the objectives of the audit, ABC Commission staff

- Reviewed applicable General Statutes, ABC Commission Rules, and administrative policies;
- Reviewed applicable reports and studies of ABC boards with similar size and geography;
- Verified compliance with Commission and Board policies;
- Reviewed organizational chart and job descriptions;
- Reviewed ABC board annual audit for the fiscal year 2014;
- Visited the store;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

G.S. 18B-601 (c) authorized the town of Eden to hold an election for an ABC store. The referendum was held on November 8, 1983 and passed 2,287 to 2,272. The first retail sale occurred on April 2, 1984. Special legislation allowed the board to sell mixed beverages.

Upon election of an ABC store, the town was authorized to create an ABC board consisting of a chairman and two board members to serve for three year staggered terms. Current board members include Thomas Flynt, board chairman, Lisa Duncan and Thomas Barbour, board members.

The Eden ABC Board operates one retail store with mixed beverage sales. The board staffs four full-time and two part-time employees. The general manager is responsible for the oversight of all daily operations pertaining to the store, inventory management, human resources, and implementation of other administrative decisions for the board. Store employees are primarily responsible for providing friendly customer service, general store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On April 28, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Eden ABC store and interviewed Gary Robinette, general manager. Below is a financial analysis followed by operational observations, findings, and recommendations related to the performance audit.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES

The profit percentage to sales is calculated by dividing the total income from operations by the total liquor sales (Total Income from Operations/Total Liquor Sales). The Commission has set goals based on the following breakdown:

- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2014, the Eden ABC board had gross sales of \$1,638,645; income from operations was \$85,786, a 5.24% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding towns within a fifteen mile radius with ABC stores include Reidsville and Madison;
- Within ten miles of the Virginia border;
- Estimated population of 15,488 in 2013, a decrease of 1.4% since 2010.

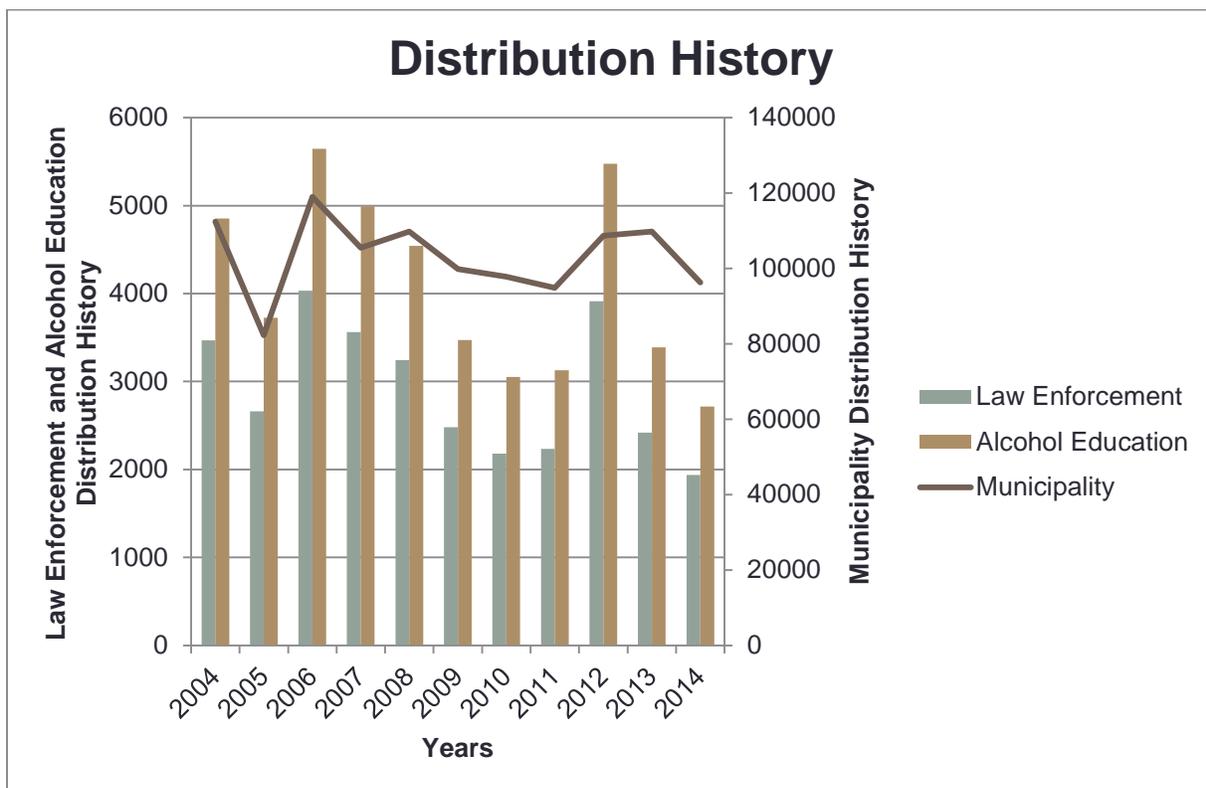
DISTRIBUTIONS

G. S. 18B-805(b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage and bottle taxes. G.S. 18B-805 (c) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the town. In FY2014, Eden ABC made the minimum distribution of \$47525, plus an additional distribution of \$48,758. \$378,697 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the town.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute at least five percent (5%) of profits to law enforcement and at least seven percent (7%) toward alcohol education/rehabilitation purposes. The remaining profits are to be distributed to the Town of Eden General Fund.

In FY2014, the Eden ABC Board distributed to the town \$1,940 for law enforcement and \$2,717 for alcohol education.

Below is distribution chart analyzing the high-low trend of the Eden ABC Board for the past ten years.



WORKING CAPITAL

G.S. 18B-805 (d) allows the board to set aside a portion of the remaining gross receipts, within the limits set by the rules of the Commission, as cash to operate the ABC system. Working capital is total cash, investments, and inventory less all unsecured liabilities. Gross sales means gross receipts from the sale of alcoholic beverages less distributions as defined in G.S. 18B-805 (b), (2), (3), and (4). The Commission has set efficiency goals based on the following breakdown:

- Four months for boards with gross sales less than \$1.5M
- Three months for boards with gross sales less than \$50M and greater than or equal to \$1.5M
- Two months for boards with gross sales equal to or greater than \$50M

In FY2014, the Eden ABC Board had a working capital of \$261,924, which is less than the maximum allowed of four months gross sales (\$419,078) and is within the limits of NCAC 02R .0902.

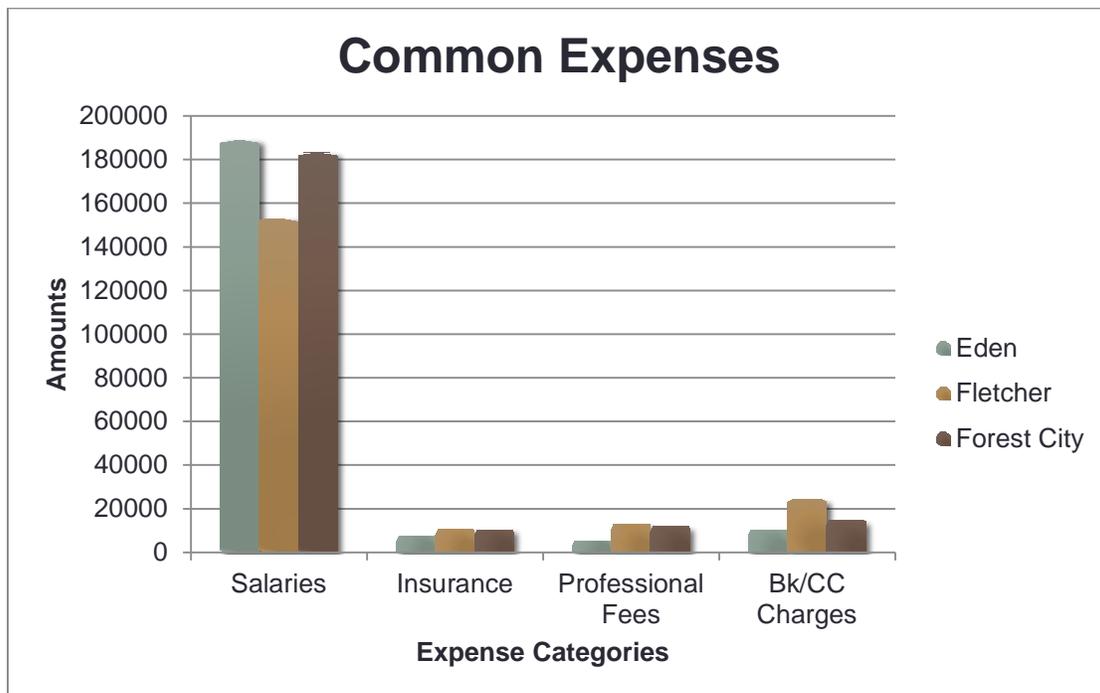
OPERATING COST RATIO

Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage sales (MXB):

- Boards with 3 or more stores – cost ratio 0.63 or less
- Board with 1 or 2 stores with MXB – cost ratio .73 or less
- Boards with 1 or 2 stores without MXB – cost ratio .85 or less

The Eden ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.76. Mixed beverage sales make up 9.6% of total gross sales. In fiscal year 2014, sales decreased 2.4% over fiscal year 2013 while expenses increased 0.3% over the same time period. To meet the cost ratio goal and remain at current operating expense of \$304,623, revenues must be increased to approximately \$1,750,000, a 6.8% increase. To meet the cost ratio goal and remain at current revenue of \$1,638,645, expenses must be reduced to approximately \$292,500, a 4.0% decrease.

A common expense analysis shows that Eden ABC Board's expenses, excluding salaries, are in line with other similar size boards. The board has significant savings as a result of owning the store and reducing overhead expenses.



STORE APPEARANCE

The Eden ABC Board operates one retail store with shelf space of approximately 1,000 linear feet and carries approximately 900 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized.
- The store displayed neat and well-visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the store is well-maintained with no evidence of trash.
- Each product is displayed within its designated category. Bottles are fronted and dusted.
- A shelf management plan is utilized/in use that exhibits a strategy following the premium products at eye level and value products on the bottom shelves. Product placement is consistent with sizes going from largest on the right and smallest to the left. Horizontal brand blocking is shown for similar products across all categories. Cross merchandizing is utilized to encourage impulse shopping.

CUSTOMER SERVICE

- The state price book is available should customers ask for specific product. Sales clerks often refer to the price book for verification of product and pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Sales clerk's interaction with retail and mixed beverage customers is attentive, courteous, and all are eager to meet the needs of the customers.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- All board members, the general manager, and the finance officer have completed the ethics training required by the statute. Board members have since been reappointed and have not yet completed the ethics training.
- Some cross training has been extended on key administrative duties to employees showing general interest in the event the manager was suddenly unavailable. However, certain duties dealing with the financial bookkeeping have not been extended.
- Other training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities on a continual basis.
- Personnel files are available and include human resource documentation and other personnel information as required.

RECOMMENDATIONS

1. Have all reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix A (1) for statute.*
2. Consider cross training by designating certain duties to other employees.

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - FY2014 Annual Audit
 - FY2015 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
 - Price Discrepancy Policy
 - Shelf Management Policy

- Policies not adopted or needs updating include:
 - Employee Handbook

RECOMMENDATIONS

1. Update employee handbook to incorporate current practices. Once updated, submit a copy to the Commission for approval. *Refer to Appendix A (2) for rule.*

INTERNAL CONTROL OBSERVATIONS

Internal control is the process by which the board provides assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. Internal control is strongest when activities are segregated creating a system of checks and balances, and adopting policies and procedures that follow current practices and appropriate. Below are internal control findings that were observed during the audit fieldwork.

- The general manager schedules employees for work shift hours. All employees use time cards to clock in/out. The general manager verifies and manually calculates hours worked by each employee. Payroll adjustments are in the accounting system. .
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures on handling cash drawer overages/shortages.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the general manager.
- Physical inventory counts are performed quarterly by at least two people during each shift. Spot checks are conducted frequently. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Once completed, the general manager will adjust the inventory system to match with the actual store counts.
- Unsalable merchandise is adjusted from inventory as soon as the forms are completed. Breakage forms are not submitted as required by the Commission rule.
- Out of approximately 900 product codes, approximately 100 product codes were sampled to ensure accurate pricing and two were incorrect.

RECOMMENDATIONS

1. Forward breakage forms to the Commission quarterly after the distiller representative signs and disposes of the product. *Refer to Appendix A (3) for rule.*
2. To ensure correct pricing on the store shelves and in the computer system, audit shelf tags on a regular basis by incorporating this practice during or in between the regularly schedule inventory counts. When requesting to reduce prices, request approval from the Commission.

ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS

- Board meeting minutes were viewed and followed the order of proceedings, providing sufficient detail that a reasonable person would be able to follow what transpired. Board meeting minutes included a conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- Board member appointment dates and compensation amounts are current on the Commission website.
- Board member and general manager compensation is in compliance with G.S. 18B-800 (g) and (g1).
- The general manager serves as the finance officer. A waiver has been approved by the Commission until December 2015.
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- The board is in compliance with G.S. 18B-700 (k); there are no immediate family members who are related to board members or the general manager.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Liquor orders and miscellaneous purchases are pre-audited by the finance officer/general manager. The board is usually invoiced by vendors for purchases.
- In reviewing a sample of liquor invoices, payments were made within thirty days.
- Checks bear the approved certificate as required by G.S. 18B-702 (q) indicating that the items have been approved by the finance officer for payment. Two signatures are located on all paid checks; that of the general manager and a board member. In the event the general manager is unavailable, all board members are authorized to sign checks.

RECOMMENDATIONS

1. Begin to work on a plan to designate someone other than the general manager as finance officer. The intent is to generate stronger internal controls and checks and balances. *Refer to Appendix A (4) for statute.*

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented the performance audit report and recommendations on June 25, 2015. The board has since responded to the performance audit recommendations and strives to create strategies to maintain and improve profitability while maintaining or reducing current costs and meeting budget appropriations. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations while maintaining checks and balances.

Eden ABC Board
318 N. Pierce St.
Eden, NC 27288

July 23, 2015

Ms. Moniqua Mclean
NC ABC Commission
4307 Mail Service Center
Raleigh, NC 27699-8365

Dear Ms. Mclean:

Thank you for your visit to our store on April 28th, 2015 to perform our Performance Audit, and your follow up visit on June 25th, 2015 to review your recommendations with our Board of Directors. We have reviewed the recommendations and are taking the following actions to comply.

Our Operating Cost Ratio will meet the average cost ration for boards with MXB. This due to a 4.1% sales increase and a 2.9% decrease in operating expenses for fiscal year ending June 30, 2015. The average cost ratio will be approximately .715.

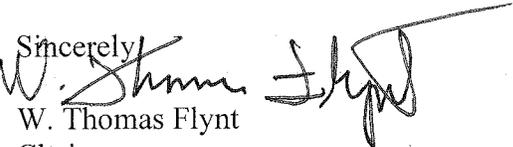
Since the Performance Audit all Board Members have completed the Ethics Requirements, and the Store Manager has begun to cross train other employees for duties critical to daily store operations.

The employee handbook has been updated to contain current City of Eden Adopted Travel Policy, the Ethics policy, the Price Discrepancy Policy, and the Shelf-Management Policy.

A scanner has been purchased for the forwarding of breakage forms to be sent to the commission on a quarterly basis.

Shelf tags are also being audited frequently to assure correct pricing.

Our General Manager has approval to serve as Finance Officer thru December 31, 2015. We have begun discussions on our options for appointment of Finance Officer and will make a decision, for commission approval, with our intentions before the deadline of December 31, 2015.

Sincerely,

W. Thomas Flynt
Chairman
Eden ABC Board

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NC ABC COMMISSION

APPENDIX A

- (1) *G.S. 18B-706 (b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office."*
- (2) *NCAC 02R .1009 states (a) "Each local board shall establish policies and rules governing each of the following:*
- (1) Initial employment of employees, including qualifications and requirements for new employees;*
 - (2) Compensation and benefits;*
 - (3) Hours and days of work, holidays, vacation, sick leave and other matters pertaining to the conditions of employment;*
 - (4) Promotion, transfer, demotion and suspension of employees;*
 - (5) Separation or termination of employees;*
 - (6) Granting of salary increases;*
 - (7) Employee grievance procedures; and*
 - (8) Any other programs or procedures as may be necessary to promote efficiency and to provide for a fair and reasonable system of personnel administration.*
- (b) A local board is encourage to model its personnel policies and procedures after those adopted by the county or municipality in which it operates. (c) A local board shall not adopt a rule or policy that conflicts with the provisions of Chapter 18B or these Rules."*
- (3) *NCAC 02R .1701 (b) states "...A written copy of the report shall be sent to the distiller and a written or electronic copy shall be sent quarterly to the Commission..."*
- (4) *G.S. 18B-702 (j) states "Except as otherwise provided, the local board shall designate (i) a part-time or full-time employee of the board other than the general manager or (ii) the finance officer of the appointing authority with consent of the appointing authority to be the finance officer for the local board. The Commission, for good cause shown, may grant a waiver to allow the general manager of a board also to be the finance officer...and any approval for the general manager also to be the finance officer shall apply until the board operates more than two stores; in any event, the approval shall be effective for 36 months. The Commission may grant one or more waivers to a board.*

APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Personnel and Training:</p> <p>Have all reappointed board members complete the ethics requirement within 12 months of reappointment.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>**Note: Required by Commission rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>All board members have completed this requirement.</p>
<p>ABC Board Policies:</p> <p>**Update employee handbook to incorporate current practices.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>**Note: Required by Commission rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented 25% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management is currently updating handbook to incorporate current practices.</p>

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Internal Control Procedures:</p> <p>Submit all breakage forms as outlined in the Commission rule.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>**Note: Required by Commission rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures to ensure compliance with the Commission rule.</p>